

RAISING THE STANDARD DEDUCTION: IMPACT ON TAXPAYERS AND GENERAL FUND REVENUE

Revenue Laws Study Committee, February 9, 2016
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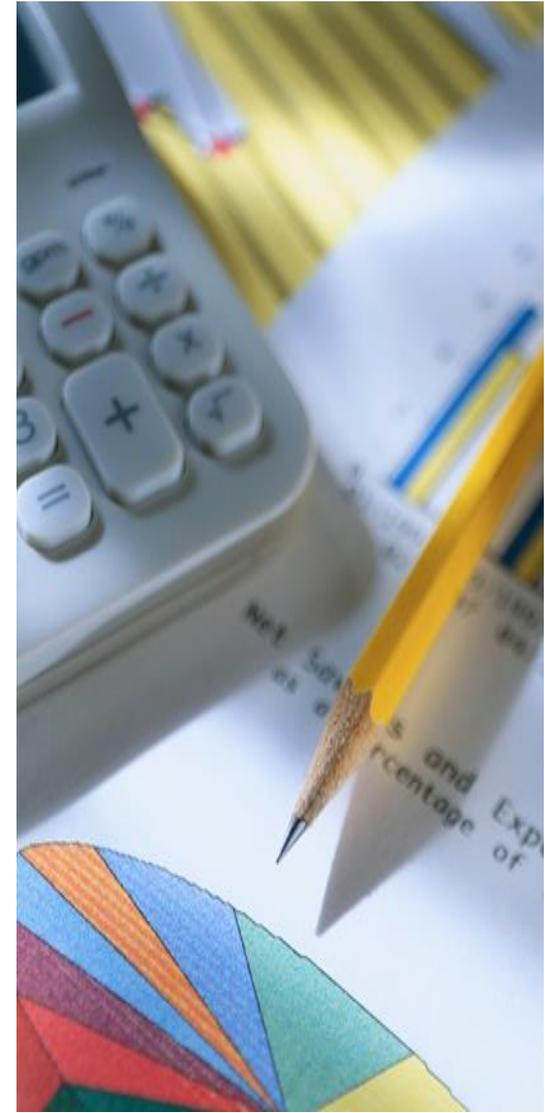
Outline

- **Income tax basics and the Standard Deduction**
- **Increasing the Standard Deduction**
 - ▣ **Taxpayer Outcomes**
 - Change in Effective Rate
 - Change in number of tax returns with no taxes owed
 - ▣ **Fiscal Impact on State General Fund Revenue**

Sources: Estimates and Compilation by Fiscal Research Division using data from the NC Department of Revenue, IRS - Statistics of Income, and projections from the BearingPoint Tax Model

NC Personal Income Tax Basics

- Over **4.3 million** tax returns filed
- **70%** use the **Standard Deduction** (30% Itemize)
- Filing Status: **~40% Single** (or MFS), Married Filing Jointly **~40%**
- **52% of General Fund Revenue**, \$11.1 billion in FY15



The Standard Deduction

Two types of deductions from Adjusted Gross Income:

Standard and Itemized

- Taxpayers choose between itemizing their deductions or taking the Standard Deduction
- The amount of the Standard Deduction is determined by Filing Status:
 - ▣ Single and Married Filing Separately (S)
 - ▣ Head-of-Household (HOH)
 - ▣ Married Filing Jointly (MFJ)

The Standard Deduction

- **The Standard Deduction - TY2016**
 - Single - \$7,750
 - Head-Of-Household - \$12,400
 - Married Filing Jointly - \$15,500



Increasing the Standard Deduction

- **What are the impacts of increasing the deduction by \$2,000 (MFJ)-**
 - ▣ **Single** from \$7,750 to \$8,750
 - ▣ **Head-Of-Household** from \$12,400 to \$14,000
 - ▣ **Married Filing Jointly** from \$15,500 to \$17,500

Increasing the Standard Deduction

Every tax return that takes the Standard Deduction will owe less taxes

- Raise the Standard Deduction - lower the effective tax rate

- **Effective Tax Rate =**

Taxes Owed

Adjusted Gross Income

- Estimated Effective Rate in 2016 (all returns) –
 - Current Law – **3.78%**
 - Stand Deduction (\$2,000 ,MFJ) – **3.72%**

Increasing the Standard Deduction

Consider:

Couple filing one return (MFJ), Adjusted Gross Income - \$43,916, Tax Rate 5.75%

2016 - Current Law

Income:	\$43,916
St. Ded.:	\$15,500
Taxable Income:	\$28,416
Taxes Owed:	\$1,634
Effective Rate:	3.72%

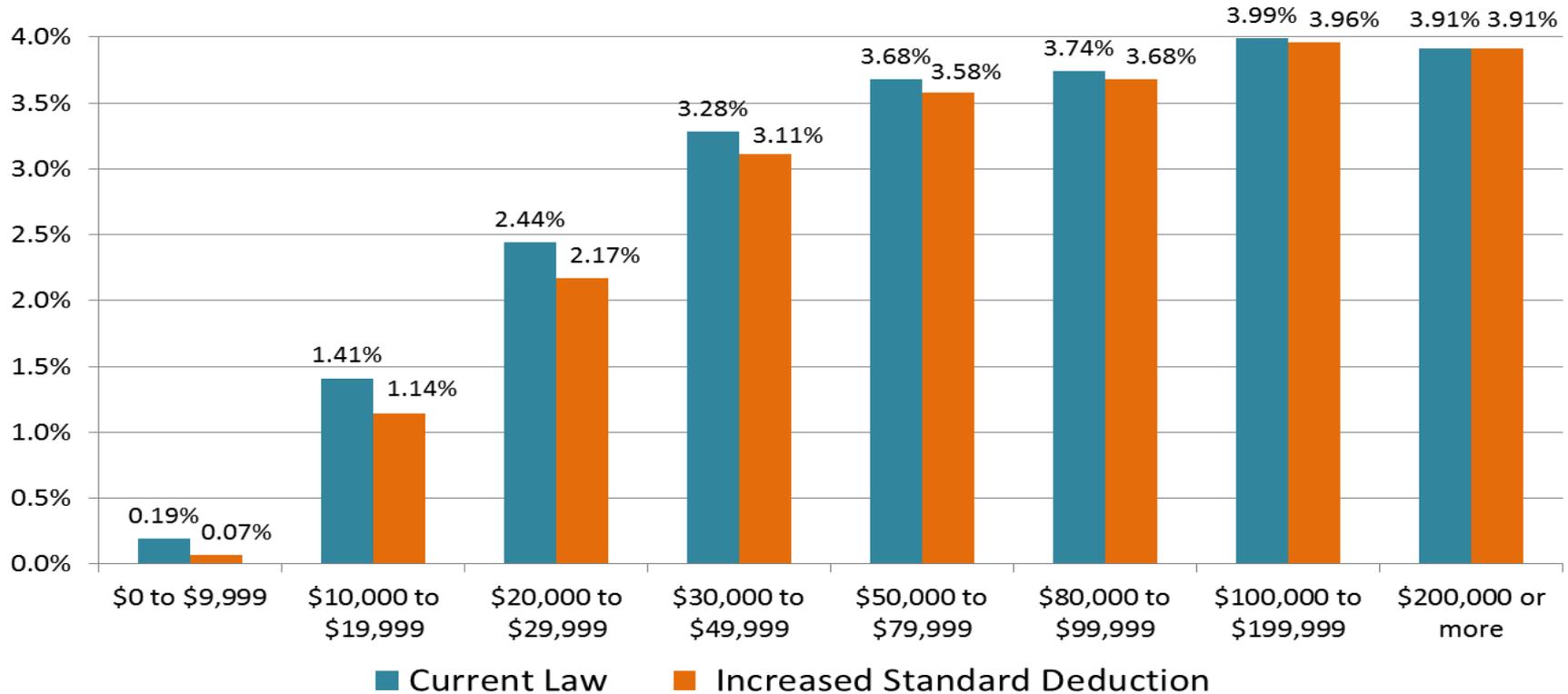
2016 - Increased SD

Income:	\$43,916
St. Ded.:	\$17,500
Taxable Income:	\$26,416
Taxes Owed:	\$1,519
Effective Rate:	3.46%

Reduction of \$115

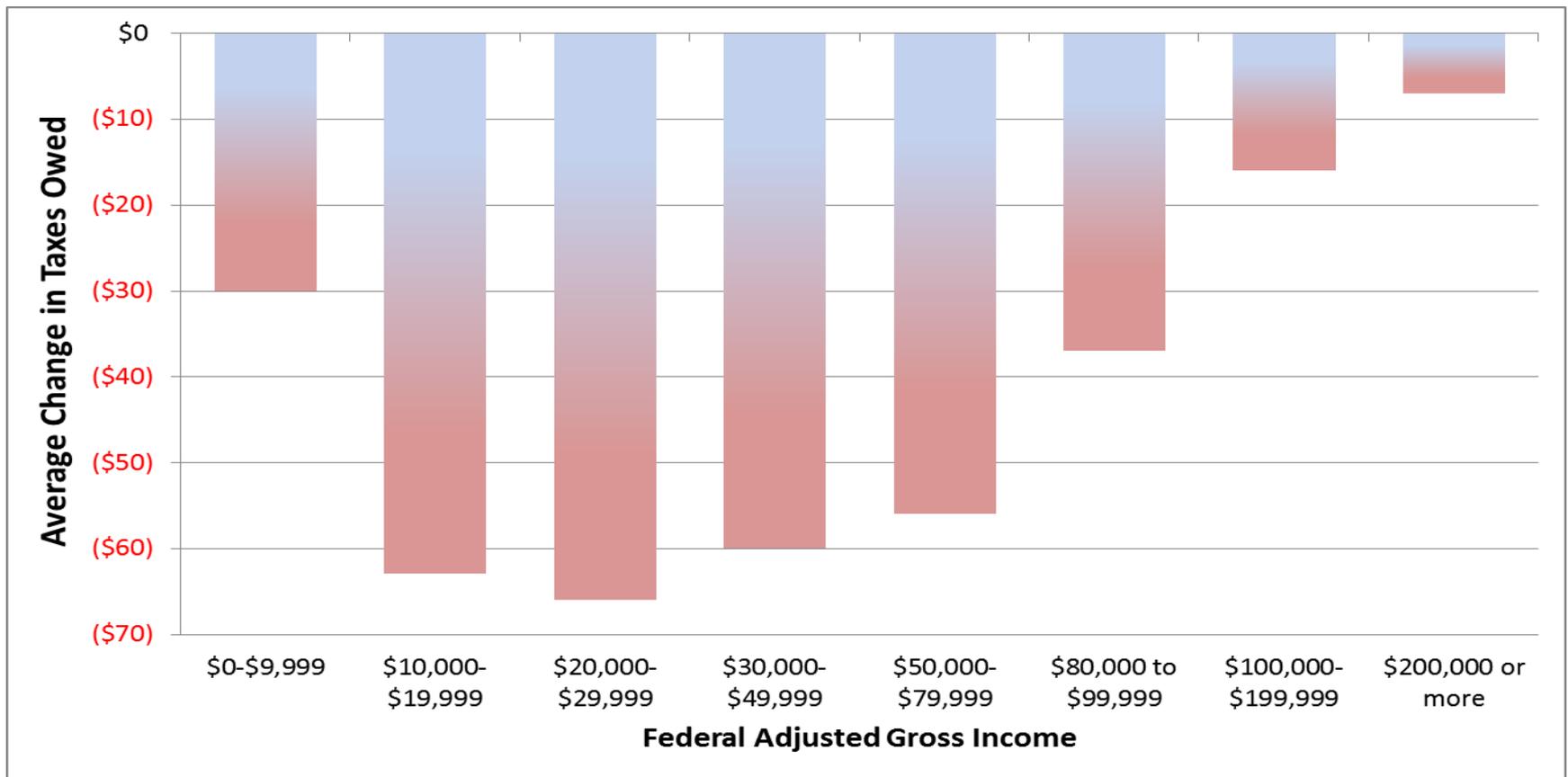
Increasing the Standard Deduction

Change in Effective Rate by Income



Increasing the Standard Deduction

Average Change in Taxes Owed Per Return



Increasing the Standard Deduction

- **Estimated 70 -75,000 returns will no longer owe taxes**
- **Fiscal Impact on General Fund Revenue**
 - ▣ **2017 tax year - \$195-\$205 million**
 - **Fiscal Year impacts – timing**
 - Changes in monthly withholding on wages
 - Shifts in estimated payments
 - Effects on Final Payments and Refunds in April